

Royalty Oil Settlement Price Reopeners**FY2005 Request: \$200,000**
Reference No: 31371**AP/AL:** Appropriation
Category: Development**Project Type:** Planning**Location:** Statewide**Contact:** Mark Myers**House District:** Statewide (HD 1-40)**Contact Phone:** (907)269-8800**Estimated Project Dates:** 07/01/2004 - 06/30/2008**Brief Summary and Statement of Need:**

One of the Department's missions is to maximize revenues from oil and gas production. This CIP will allow the Division to monitor and reopen existing royalty settlement agreements to assure that the formulas contained in those agreements reflect the full value of royalty production. Funds will be used to retain experts to analyze and evaluate oil and gas values and tanker, pipeline, field, and processing costs, as well as to train the Division's commercial analysts and auditors in these matters.

Funding:	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	Total
ASLC Div	\$200,000						\$200,000
Gen Fund		\$200,000	\$100,000	\$100,000	\$100,000	\$100,000	\$600,000
Total:	\$200,000	\$200,000	\$100,000	\$100,000	\$100,000	\$100,000	\$800,000

<input type="checkbox"/> State Match Required	<input type="checkbox"/> One-Time Project	<input type="checkbox"/> Phased - new	<input type="checkbox"/> Phased - underway	<input checked="" type="checkbox"/> On-Going
0% = Minimum State Match % Required		<input type="checkbox"/> Amendment	<input type="checkbox"/> Mental Health Bill	

Operating & Maintenance Costs:

	<u>Amount</u>	<u>Staff</u>
Project Development:	0	0
Ongoing Operating:	0	0
One-Time Startup:	0	
Totals:	0	0

Additional Information / Prior Funding History:

SLA98/CH139 - \$100,000

The project serves primarily as a contingency fund for reopeners, due to the unpredictable and random timing and content of reopener requests.

Project Description/Justification:**Detailed Project Justification:**

This project meets DNR's constitutional and statutory dictates to maximize income from the State's natural resources by allowing for the ongoing adjustment of formulas used to reflect the value of, and costs associated with, natural resource production.

While this project will not reduce State operating costs, it should pay for itself many times over in increased oil and gas royalties. Similar projects in the past have consistently generated revenues many-fold than their costs.

The only alternatives to this project are to allow oil and gas producers to continue paying royalties based on outdated formulas that no longer reflect the full value of the State's resources, or to engage in reopeners without adequate preparation and information, which will have the effect of perpetuating or worsening formulas for the valuation of the State's resources.

Why is this Project Needed Now:

This project is needed now to assure that current revenues from oil and gas production accurately reflect the value of that production, with deductions only where allowed and only sufficient to cover actual and reasonable costs between the State of Alaska Capital Project Summary

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point of production and market. Reopeners must be conducted in a timely fashion, since the State's ability to make retroactive changes to royalty formulas is typically limited to six months.

Prior Funding History and Status:

The Division has requested and received similar CIPs in the past. Currently, \$50K remains in existing CIPs; however, the Division is certain to spend the remaining sums in FY04 on the Exxon reopener to assure that Exxon reports ANS West Coast deliveries at ANS spot price, not \$1/bbl less, as the current settlement permits.

Specific Spending Detail:

(Identify in dollars by line item; Describe in detail what products/services will be purchased.)

Line Item Expenditures:

Travel \$25,000 Description-The sum is requested to cover expenses related with travel and training for Division personnel on issues related to royalty valuation and tanker, pipeline, field, and processing costs, and for travel as part of reopeners.

Contractual Services \$175,000 Description-This sum is requested to cover fees and expenses charged by outside experts on oil and gas valuation and tanker, pipeline, field, and processing expenses.

Project Support:

DNR works closely with the Department of Law on royalty reopeners; DOL will support this request.

Project Opposition:

While oil and gas producers understandably want to minimize their royalty obligations to the State, we do not expect active opposition by producers